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Impact of Inflation on the Indian Economy : A Comparative and Critical Analyses

Palak Agarwal

Assistant Professor

SC Guria Law College
Kashipur (Uttarakhand)

Abstract

India is one of the world's badly hit countries from the effect of coronavirus pandemic. As India recovers from the economic damage caused by the ***Covid -19 Pandemic***, it is also fighting against the outbreak of ***Inflation.*** Inflation basically exists when supply of money exceeds available goods and services. One of the extreme jolt of inflation is the general slowdown of the growth of an economy. Controlling inflation become the most vital mandate of the government as because of its existence an economy is in turmoil. Business risks along with the financial risk would be very high when the value of money is not stable. Inflation redistributes income in favour of the rich at the expense of the poor one, it is especially the middle class which suffers the most by the virtue of inflation. Inflation erodes the real savings by deterioration of the value of the money. This article analyses the impact of ***pandemic*** on the rates of inflation that has emerged during last year . This research paper talks about the various strategies and the action plans that can be taken by the Government of India to make sure that businesses and the economy spring back to their feet from the adverse impact of COVID -19.

Key Words: Inflation Pandemic Turmoil Deterioration Savings Economy Financial Risk Business Risk

Introduction

Inflation is a universal phenomenon in present day times. There is hardly any country in the world which has not been severely affected by the scope of inflation. ***Crowther*** has defined inflation as a "state in which the value of money is falling i.e, the prices are rising. ***Brooman*** defines inflation as a "continuing increase in the general price level".*

According to me, there are basically two important things for having the basic understanding of the term "**Inflation": -**

DECLINE IN THE PURCHASING POWER OF MONEY

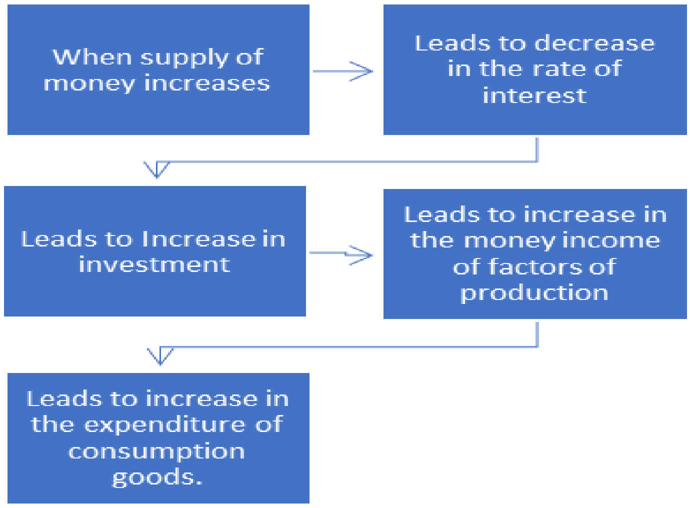
PERSISTENT RISE IN THE GENERAL PRICE LEVEL

For better understanding let's first discuss it's types: -

DEMAND PULL INFLATION

COST PUSH INFLATION

Demand pull inflation is basically caused by an increase in the aggregate demand for the goods and services in an economy. But for this we have to check the factors which can cause an increase in the sizes of demand and shift the demand curve rightwardly:



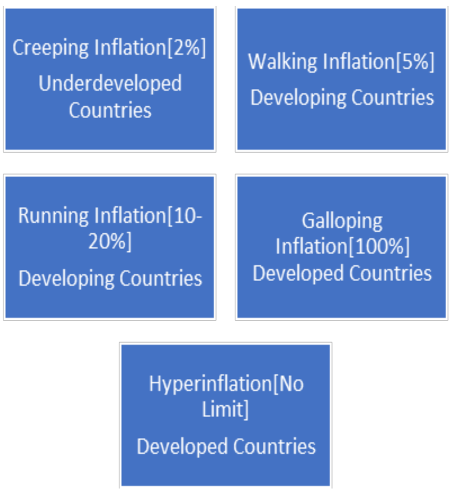
Cost Push Inflation also known as supply inflation, it is not due to excessive demand but is caused by *increase in the production costs which is mainly caused by three factors:-*

-*An increase in wages*

-*An increase in the profit margins*

-*Imposition of hefty taxes on the commodities that is ultimately passed on consumers.*

Classification on the Basis of the rate of Inflation



Objectives of the study

The following objectives have been outlined in the present study:-

- To study the root cause of inflation.
- To assess the impact of the inflation on the Indian economy caused by the COVID-19 PANDEMIC.
- To study the changes in the inflation rate by comparing the figures of January2021 and January 2022.
- To suggest various measures that can reduce the impact of the inflation rate.

Reasearch Methodology

Research methodology is used as a systematic tool to find out the solutions for the problem, starting from making objectives, collecting data, classifying and tabulating data, analyzing and interpreting it and drawing conclusions and suggestions for them. The study is done to analyze the changes in the rates of inflation and the changing patterns of the consumer in India due to COVID -19 Pandemic. For the purpose of data collection, secondary data has been used. The secondary data was collected from the government publications, websites, articles, reports as per the requirements of the study.

Literature Review

In order to find out the implications of inflation, various research journals and publications have been reviewed. An attempt has been made to review the related literature pertaining to the present study.

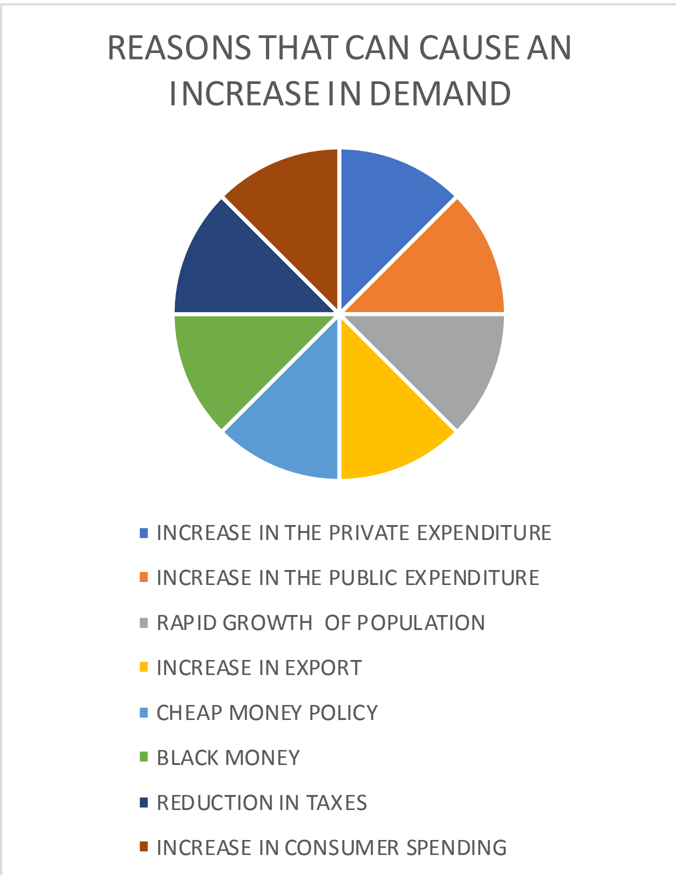
Dr. S.K.S Yadav, Jain Arushi, Narang Shilpa (2021) discussed that growth and stability are the two sides of the same coin. They founded that inflation is an unpredictable phenomena. The major reason behind the inflation rise is the sharp increase in the commodity prices. The main cause of inflation is the inflation of the food prices which is in October 2020 (11.07%) core inflation, 5.64% which was the highest rate in the past. Further added that to reduce inflationary pressures, the government can increase taxes and decrease government spending.*

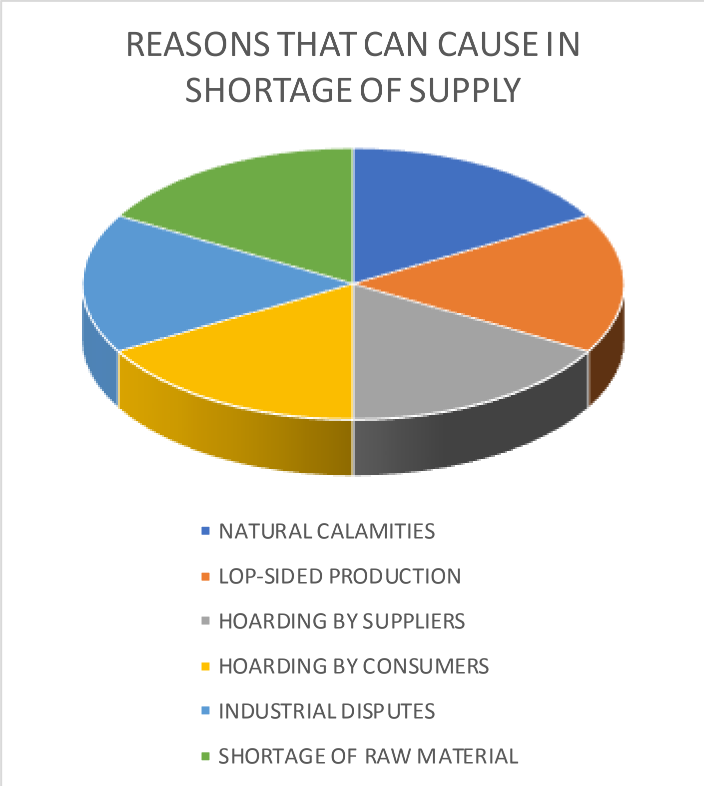
Vikas Barbate, Rajesh N. Gade (2021) concluded that big impact is likely on the GDP growth rate atleast for the year 2020-2021. Same is the finding in the case of unemployment. Inflation too is likely to raise in the short term. Recovery in the long term will depend on the mode of recovery that the economy will adopt. He also added that the Indian economy is not much vulnerable to the global economic crisis except for a thing like oil imports. It has its own local-demand supply network that can bring back growth levels of 7-8 %*

Pooja Kapoor (2020) said that Overall, the domestic economy needs to be revived by the government in order to fight the side-effects of the COVID-19. COVID-19 has not only left the economy crippled but has taken a toll on the lives of the citizens of this country and of course globally. Since it has been speculated that lockdown might get extended in the country, the revival of the economy and obedience towards lockdown rules must go hand in hand. Indian economy would witness a decline in inflation accompanied by a recession in the short run. However, the long-run scenario would depend on the period to which lockdown of the economy prevails and the numbers of coronavirus affected people. Talking globally, when this COVID-19 has hit the whole world so hard, cooperation and mutual help are what this highly integrated globalized economy longs for.*

Analysis and Intrepretation

There are so many reasons /factors that may cause a shift in demand. The concept of demand pull inflation is associated with a situation of full- employment where increase in aggregate demand cannot be met by a corresponding expansion in the supply of real output.*



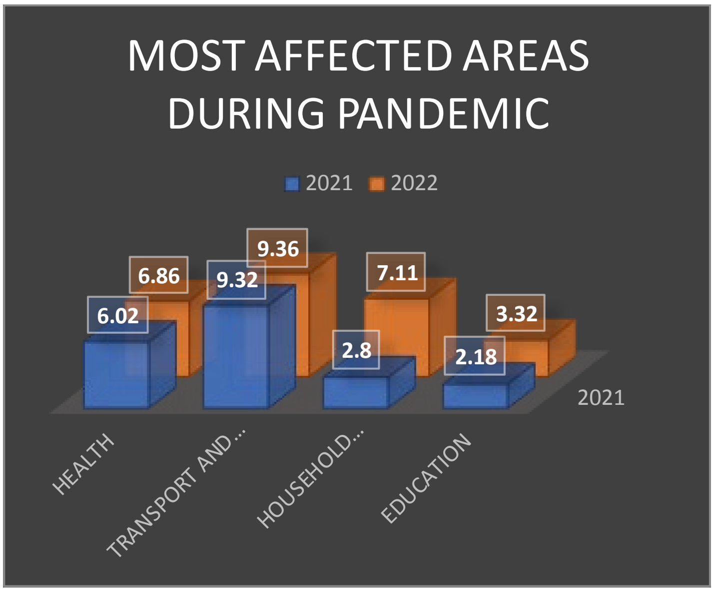


A large portion of what we are experiencing in inflation is due to the deflation which we saw in 2020 during the ***lockdown*** that was imposed by virtue of ***covid -19 pandemic.*** *At that time, most of our economy was shut down, people spent less account of the all round shortages of commodities in the economy. That put a*

deflationary position as prices experiencing a downfall. And yes a shift has been noticed in the expenditure of the consumer basket. The 2020 ***Covid Basket*** *weights more for food, health, communication. The consumption on these items were fed up during the* ***pandemic.*** *No one knew what the next week would bring, the main purpose of life as the "survival". After 12-months, almost a year when the unlock phase be implementing after second wave, people start travelling again , rush to the markets to satisfy their longstanding demand for goods, start investing. There is so much accrued demand which exaggerate the prices as we've seen . Let's couple that high level of demand with low level of supply as supply chains get almost disrupted by the* ***pandemic*** *as India's industrial production dropped sharply in April 2021 when the country went into lockdown and almost all factories were not in operation. Majority of industrial establishments reported no production for April. People had to pay up for the products since fewer products were available.*

"High Demand + Low Supply leads to the higher prices & that is what inflation is all about".

We have also suffered from the situation of ***Stagflation*** *in this covid -19 pandemic* . It refers to a condition when a high rate of inflation occurs simultaneously with a high rate of unemployment .

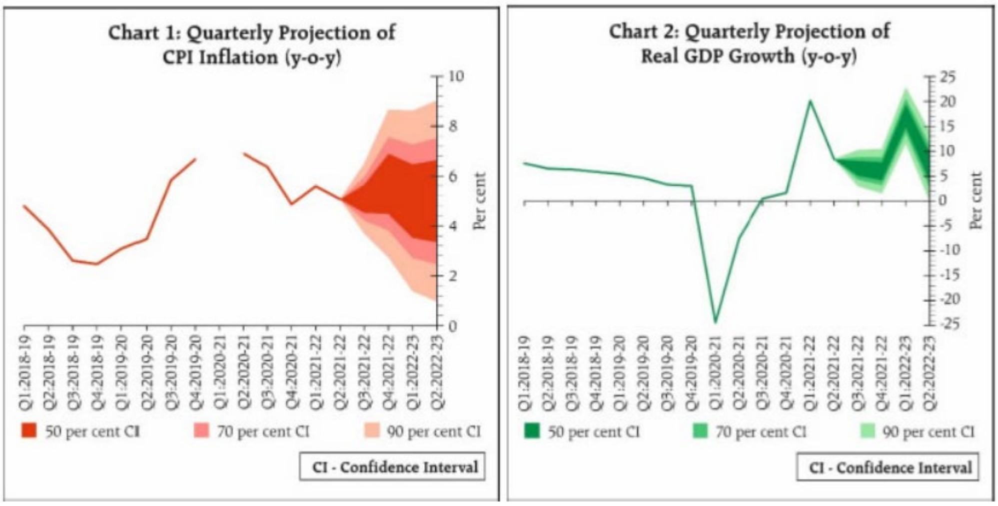


*If I took into consideration the figures of January 2022 and compare the data with 2021 then combined inflation rate (both rural and urban) **for "Health" sector,** the rates are 6.86% as per the **report of "Ministry of Statistics and Programme Implementation" (National Statistical Office) released on 14th February 2022 for " Transport and Communication" sector,** the rates are 9.36% **for "Household Goods and Services"sector,** the rates are 7.11% **for "Education" sector,** the rates are 3.32%*

*Whereas for January 2021, the combined inflation rate (both rural and urban) **for "Health" sector,** the rates are 6.02% as per the **report of "Ministry of Statistics and Programme Implementation" (National Statistical Office) released on 12th February 2021 for " Transport and communication" sector,** the rates are 9.32% **for "Household Goods and Services"sector,** the rates are 2.80% **for "Education" sector,** the rates are 2.18%.**

*It is clearly visible in the chart that the **health sector is impacted severely whereas the rates for the household goods and services sector also been escalated to the next level , the transport and communication sector has not been much affected on the other hand the rates for the education sector is slightly incremented.***

CPI inflation is estimated at 5.3 per cent for 2021-22; 5.1 per cent in Q3;5.7 per cent in Q4:2021-22, with risks broadly balanced. CPI inflation for Q1:2022-23 is projected at 5.0 per cent and for Q2 at 5.0 per cent (Chart 1). On the other hand, volatile commodity prices, persisting global supply disruptions, new mutations of the virus and financial market volatility pose downside risks to the outlook. Taking all these factors into consideration and assuming no resurgence in COVID-19 infections in India, the projection for real GDP growth is retained at 9.5 per cent in 2021-22 consisting of 6.6 per cent in Q3; and 6.0 per cent in Q4:2021-22. Real GDP growth is projected at 17.2 per cent for Q1:2022-23 and at 7.8 per cent for Q2 (Chart 2). { **Source: www.rbi.org.in**}



Source: www.rbi.org.in

Conclusion

The phenomenon of inflation produces a very deep impact on the production of wealth in the underdeveloped and in developing economies as well. Inflation is socially unjust and inequitable for the weaker sections because it redistributes income and wealth in favour of those classes who are already well established and capable enough to satisfy their desires. If proper control over creeping as well as walking inflation is not being exercised then it can lead to the situation of galloping one and lend the economy in danger. There is no upward limit to which the general price level may rise in force of time. There is an imperative need to find out various strategies to be undertaken to address the adverse impact of COVID-19 on the Indian economy. Government should have to take some effective measures in this respect namely demonetization of currency can be made once more like in 2016 adopted, increase in savings, increase in taxes, credit control, reduction in unnecessary expenditure can be further implemented. The most logical solution to control inflation is to keep an eye over the flow of money supply by applying appropriate monetary policy and carefully implementing the necessary measures. Similarly, exports may also be reduced to increase the availability of the domestic supply of essential goods and services so that the inflation is eased.

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1 Inflation is taking up the poverty line, and poverty is not just economic but defined by way of health and education:- famous quote by "AZIM PREMJI" (Founder of WIPRO COMPANY)